

Message Text

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12

ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 IO-10 OES-05 INT-05 FEA-01 ABF-01 PA-02 PRS-01

USIA-15 FSE-00 /127 W

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P R 191012Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 2542

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS PRIORITY

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USINT BAGHDAD

UNCLAS KUWAIT 1243

.E.O. 11652: N/A

TAGS: EFIN KU

SUBJECT: REAVLUATION OF KUWAITI DINAR

REF: (A) KUWAIT 1189 (B) KUWAIT 1206 (C) KUWAIT 1224

1. CONVERSATION WITH IMF INTERNATIONAL MONETARY AFFAIRS ADVISOR
AT KUWAIT CENTRAL BANK MARCH 19 HAS HELPED CLARIFY RECENT RE-
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VALUATION DEVELOPMENTS HERE. HE CONFIRMED INFO PROVIDED BY

MINISTRY OF FINANCE SOURCE (REF C), VIZ., THE DINAR IS NOT RPT NOT PEGGED TO SDR. IT REMAINS PEGGED TO BASKET OF CURRENCIES REFLECTING KUWAIT'S MAJOR TRADE PARTNERS' CURRENCIES, INCLUDING U.S. DOLLAR. WHAT WAS DONE WAS TO REMOVE 5 PERCENT MARGIN VIS-A-VIS DOLLAR WITHIN WHICH DINAR HAD BEEN EXPECTED TO REMAIN.

2. COMMENT: IN RETROSPECT IT CAN BE SEEN THAT GOK HAD BEEN FOLLOWING TWO POLICIES: (1) KD WAS PEGGED TO BASKET OF CURRENCIES AND (2) IT WAS EXPECTED TO REMAIN WITHIN A 5 PERCENT MARGIN (2.25 PERCENT ON EITHER SIDE) OF DOLLAR. FOR SEVERAL WEEKS SECOND POLICY HAD ARTIFICIALLY WEAKENED DINAR AND IT WAS BECOMING IMPOSSIBLE TO CONTINUE BOTH POLICIES. SINCE NO TRUE MARKET EXISTS FOR DINARS, IT IS TECHNICALLY INCORRECT TO SAY DINAR IS FLOATING. HOWEVER, GOK WILL, IN EFFECT, SIMULATE A FLOAT UNTIL DINAR FINDS PROPER LEVEL. THUS, IT MAY BE SAID THAT KUWAITI DINAR IS UNDERGOING A MODIFIED FLOAT. NOT CLEAR WHETHER IT WILL LAST INDEFINITELY.

3. ALTHOUGH DINAR NOT PEGGED TO SDRS, THE BASKET OF CURRENCIES USED BY GOK WILL ALMOST ALWAYS CLOSELY APPROXIMATE BASKET USED TO DEFINE SDR VALUE. FROM HERE IT APPEARS THAT ACTION IN IRAN, SAUDI ARABIA AND ELSEWHERE IN REGION UNPEGGING LOCAL CURRENCIES TO DOLLAR IS SIMILAR TO ACTION GOK TOOK QUITE SOME TIME AGO, I.E., PEGGING LOCAL CURRENCY TO BASKET OF CURRENCIES (IN CASE OF IRAN AND SAUDI ARABIA SDRS, IN CASE OF KUWAIT, A UNIQUE BASKET). IN PROCESS SAUDI RIYAL, KUWAITI DINAR, ETC. HAVE BEEN REVALUED VIS-A-VIS DOLLAR. IN SHORT, TWO STEPS HAVE BEEN TAKEN IN SAUDI ARABIA RECENTLY, BUT ONLY ONE IN KUWAIT, THE OTHER HAVING BEEN TAKEN PREVIOUSLY.
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